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*Cost-Benefit Analysis as a Solution to a Principal-Agent Problem*

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Abstract by Lisa Hodes

This article examines cost-benefit analysis (CBA) from a unique angle: how should the President of the United States organize and monitor agencies so they can efficiently and effectively implement their goals? The author answers this question using the classic principal-agent problem, with the President as the principal and the agencies as his agent.

The author presents the advantages and disadvantages of CBA against two goals of the president: maximizing societal welfare and improving his chances of re-election. The author goes on to apply CBA to other more complex models, such as Congress or the public as the principal and the agencies as the agent. The author endorses CBA as an important tool for ensuring that agencies comply with the goals of the President, Congress, or the public, but notes that CBA operates differently in different agencies.